World Bank Group Korea Office Newsletter

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IFC Innovation Day–Seizing Opportunities of 4th Industrial Revolution

How can Korean companies stay relevant in the 4th Industrial Revolution? How can they tap into the new global opportunities? "The 4th Industrial Revolution and Startups" conference organized by the International Finance Corporation (IFC) Korea Office on March 30 brought together more than 200 innovators, entrepreneurs and venture capitalists as they discussed the opportunities and challenges related to the 4th Industrial Revolution.

"The beauty of startup is that it doesn't matter where you originate. If you have a good idea in one country, there's a high chance it can be replicated in many others," said Vivek Pathak, IFC Director for East Asia and the Pacific, in his opening remarks. "The founder's challenge is to prove this next big idea can be scaled up, and that he or she has the resources and management capacity for realization."

Panel discussions that followed revealed that in the space of 4th Industrial Revolution marked by destructive technologies, new business models and fintech, Korean companies have to expand their horizon and compete for the funding pie that's available globally. However, the audience heard repeatedly that for Korean startups to fully realize their potential, they need to respond quickly to changing technologies and be able to communicate the opportunity.

"Korea has geographical location, infrastructure, and technology to become Asia's Silicon Valley," said Shaun Cochran, Global Head of Thematic Research. "But there are not enough educational institutions to produce ideas and talents like in the U.S and China."

Hong-gyoo Sohn, professor at Yonsei University cited a survey that just 1% of Yonsei students want to start a startup, which pales in comparison to Stanford University, where more than 10% of students want to create their own company. He stressed that one of the biggest reasons why Korean students do not start a business is fear of failure.

Panelists agreed that a shift in mindset is important and what the investors, the private sector and the government, need to do is to foster a culture of taking more risks and remove the stigma of failure. "There should be many good quality startups that have recovered from failures," said Jung-wook Lim, Managing Director of Startup Alliance Korea. "They will set a good role model."

For Dong-il Seo, CEO of VoleR Creative, communication skills are essential for success in the global market. "You can't succeed if you can't explain your products and services to persuade people." He also emphasized that breaking the language barrier is key to finding market opportunities outside of Korea. "Language is an important deciding factor when I invest in a company as an angel investor. If you can only speak Korean, chances are you have to hire only Koreans and you will only receive funding from Korean venture capital firms. If you can speak English, you can attract excellent talent from abroad."

Kyung-jin Song, President of the Institute for Global Economics lamented the lack of continuous startup support system in the country. “Startups should do everything alone. Major conglomerates and companies like Naver, which also was once a startup, should give free consultations to startups and increase their support."

Panelists also pointed out that domestic venture capital companies tend to make profit-centered investment, and therefore are more interested in quick exit from their investments. IFC's Venture Capital was introduced which invests in ventures and growth stage companies that offer innovative technologies or business models geared at emerging markets.

IFC venture capital team has invested close to 1 billion dollars for the last 10 years all around the world. “We will work with Korean investors and innovators in supporting the country’s digital revolution and help Korea bring cutting-edge solutions to new markets,” said Joon-young Park, Resident Representative of IFC Korea Office.

Please see IFC Director for East Asia and the Pacific, Mr. Vivek Pathak’s interview with *The Korea Economic Daily* (in Korean): http://stock.hankyung.com/news/app/newsview.php?aid=2017040444601

Where the Risks Are: Helping Countries Combat Money Laundering

A three day workshop recently held in Busan, Korea from March 27-30, 2017, brought together 44 officials from law enforcement agencies, supervisory agencies, and other stakeholders of Association of South East Asian Nations (ASEAN) countries and Timor-Leste to discuss a risks-oriented approach to combating dirty money. Organized by the World Bank with financial support from the Government of Korea, the workshop facilitated the sharing of country experiences on progress being made on implementing respective country action plans arising out of the national risk assessments completed or to be completed.

Over the last few years, countries have come to understand that assessment of risks posed by the concealing and moving of criminal proceeds at the national level is critical in knowing where the government can focus the limited human and financial resources. “Some criminal activities are more important than others in terms of the profits generated,” said Stuart Yikona, Senior Financial Sector Specialist at the World Bank Finance & Markets Global Practice. “On the public sector side, having such an understanding enables on the competent authorities to pay attention to high profile crimes, going after high profile criminal networks and recovering large sums of criminal proceeds.” He explained that on the private sector side, the national risk assessments enable banks, real estate agents, and securities players to better understand the nature of suspicious financial transactions they need to pay attention to.

Since 2012, the World Bank has provided advisory support in carrying out the national risk assessment with a number of the ASEAN countries based on a National Anti-Money Laundering Risk Assessment Tool developed by the Bank’s Financial Integrity Unit.

“The tool provides a systematic approach to analyze the country’s money laundering and terrorist financing threats and vulnerabilities” said a delegate from Timor-Leste. “We also benefit from the World Bank’s technical knowledge and capacity building trainings which not only involves the central bank and Financial Intelligence Unit but also law enforcement authorities and compliance officers.”

Participants appreciated the World Bank's practical approach of the workshop. "This is not a kind of workshop where you just listen to theories. It's really a place where you talk about your own experience since each country is at a different stage. Having everyone come to the same table allows us to share what the problems and achievements are," said a delegate from Cambodia.

As much as the workshop was to get a sense from individual countries on exactly what's happening in their jurisdictions, it was also about exploring ways of how to combat cross border criminal activities such as illegal logging, wildlife trafficking, thereby enhancing regional cooperation. This remains an area that poses a great challenge for all the participating countries to foster a regional collective action strategy to deal with the underlying criminal activities as well as the financial flows derived from these activities.

In trying to help countries overcome the regional collective action problem, the World Bank team shared and sought feedback from the participants on the viability of a corridor risk tool intended to map corridors through which criminal money and goods move. Those delegates who provided feedback indicated that a high level commitment from policy makers was required in order to carry out a cross border corridor risk assessment.

"The workshop highlighted that building trust and confidence amongst the countries is the first line of defense in the fight against money laundering and terrorist financing" said Sameer Goyal, Program Manager of the World Bank Seoul Center for Financial Sector Development. "We look forward to closer cooperation with client countries and partners such as Government of Korea in promoting financial integrity within the ASEAN region."

Countries Use *Doing Business* to Improve Regulatory Environment

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. Launched in 2003, *Doing Business* is a World Bank Group flagship publication which measures the regulations that enhance business activity and those that constrain it.

On March 10, a event held in Seoul by the World Bank Group Korea Office invited Ms. Hulya Ulku, a senior economist from the World Bank Development Economics Group (DEC) to hear the main findings of *Doing Business 2017* and how the Report provides objective measures of business regulations for local firms in 190 economies.

Through presentations and discussions, participants gained understanding of how countries have rolled out policy directives to improve the business environment due to the World Bank *Doing Business* and how the report continues to be a major reference document on the efficiency and quality of regulatory business environment of economies.

Ms. Hulya Ulku explained that worldwide, 137 economies implemented 283 reforms in in the part year. "Doing Business data points to continued successes in the ease of doing business worldwide, as governments

increasingly take up key business reforms."

Economies have improved regulatory processes the most in the area of starting a business. "Starting a new business now takes an average of 21 days worldwide, compared with 46 days 10 years ago."

She explained that this year's report introduces major improvements by expanding the paying taxes indicators to cover postfiling processes—tax audits, tax refunds and tax appeals—and presents analysis of pilot data on selling to the government which measures public procurement regulations.

Access to reliable and affordable electricity is vital for businesses but in many economies the connection process is complicated by the multiple laws and regulations involved. Globally, Korea maintained the top spot in the ranking of 190 economies on the ease of getting electricity. According to the report, getting electricity in Korea requires 3 procedures and takes 18 days. The event therefore invited a senior official from the Korea Electric Power Cooperation (KEPCO) to hear the innovations and advances undertaken by the company that helped improve the country's ranking in that category.

New Zealand is the economy with the highest ranking this year, taking over from Singapore. New Zealand ranks first in half of the ten different indicators that affect the life of a business including starting a business, dealing with construction permits, registering property, getting credit, and protecting minority investors. Most notably, it only takes half a day to start a company there.

"The reasons around the reforms undertaken by the government are because they directly translate into increased productivity, economic efficiency, and overall improved well-being of New Zealanders," said H.E. Calre Fearnley, Ambassador of New Zealand to Korea.

H.E. Emma-Francoise Isumbingabo, Ambassador of Rwanda to Korea explained that the Rwandan government proposed new reforms in line with the *Doing Business* methodologies. For example, Rwanda made starting a business easier by improving the online registration one-stop shop and streamlining post-registration procedures.

The government also made it easier to register property by introducing effective time limits and increasing the transparency of the land administration system.

The *Doing Business* report series includes annual reports, regional reports, country profiles and subnational studies. http://www.doingbusiness.org

*Please see Ms. Hulya Ulku's interview with *The Korea JoongAng Daily* (in English):

http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3031190

[Op-Ed] World Economic Outlook: Hope Despite Policy Uncertainty

By Ayhan Kose, Director,
World Bank Development Prospects Group

Good riddance to 2016, when global economic growth slowed to its weakest pace since 2009. The outlook for this calendar year is modestly brighter, despite unusually heightened uncertainty about policy direction in major economies and sluggish investment growth.

The World Bank's latest projections are for global growth to accelerate to 2.7 percent in 2017 from 2.3 percent last year. In the United States, manufacturing activity will likely rebound, contributing to a mild pickup. In the euro area and Japan, supportive monetary policy should encourage activity.

Developments in the U.S. economy, the world's largest, have global implications. A sizeable fiscal stimulus package could boost U.S. growth in the near term, with potential knock-on benefits to activity abroad. Conversely, more restrictive trade policies could lead to higher import costs.

Uncertainty about the process of the United Kingdom's withdrawal from the European Union is expected to weigh on growth in 2017-2018 in that country and to a lesser extent in the euro area. Growth in the euro area is projected to be about 1.5 percent in 2017 and remain broadly stable in subsequent years.

Another significant cloud on the horizon is the substantial slowing of investment growth in emerging and developing economies in recent years. Weak investment growth slows capital deepening, constrains planned urbanization, and limits future growth potential.

Finally, mounting protectionist tendencies, weaker potential growth, and financial vulnerabilities in some emerging market economies are additional threats to the fragile global economic recovery.

In this environment, policymakers would be well-advised to pursue policies to spur sustained economic growth: increasing investment in human capital and infrastructure; promoting trade; and fostering an environment that maximizes the benefits of foreign direct investment and technological transfer.

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